

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 69558

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 07/01/2019 AND ENDING 06/30/2020
Washington, D.C. 413 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Phillip Capital Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

141 W. Jackson Blvd., Suite 1531A

(No. and Street)

Chicago

IL

60604-2653

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Cameron Frazier

(312) 356-9000

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ryan & Juraska LLP Certified Public Accountants

(Name - if individual, state last, first, middle name)

141 W. Jackson Blvd.

Chicago

IL

60604

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒
☐
☐

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

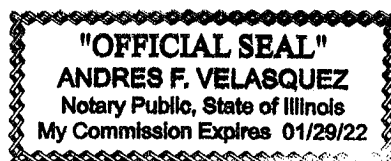
OATH OR AFFIRMATION

I, Cameron Frazier, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of **Phillip Capital Inc.** as of **June 30, 2020**, are true and correct. I further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.


Signature

DIRECTOR & CO-CEO
Title


Notary Public



This report* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholder's Equity.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1 of the Securities and Exchange Commission and Regulation 1.17 of the Commodity Exchange Act.
- ☒ (h) Computation for Determination of Reserve Requirements Under Rule 15c3-3.
- ☒ (i) Computation for Determination of PAB Reserve Requirements Under Rule 15c3-3.
- ☒ (j) Reconciliation of Statement of Financial Condition to Segregated Statement (U.S. Exchanges)
- ☒ (k) Segregation Requirement and Funds in Segregation
- ☒ (l) Segregation Requirement and Funds in Segregation – Customer's Dealer Options
- ☒ (m) Secured Requirement and Funds Held in Separate Accounts
- ☒ (n) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (o) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (p) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (q) An Oath or Affirmation.
- ☐ (r) A copy of the SIPC Supplemental Report. (filed under separate cover)
- ☐ (s) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (t) Independent Auditors' Report on Internal Control
- ☒ (u) A copy of the Annual Report on Compliance and Internal Control over Compliance Pursuant to SEC Rule 17a5(d)(3).

*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3)



August 27, 2020

Securities and Exchange Commission
Division of Trading and Markets
Mail Stop 7010
100 F Street, NE
Washington, DC 20549

SEC
Mail Processing
Section
AUG 31 2020
Washington DC
413

Annual Audited Financial Statements – Phillip Capital Inc. SEC # 8-69558

Dear Sir/Madam,

Enclosed please find the following broker-dealer annual reports submitted pursuant to Paragraph (d) of Rule 17a-5. Please confirm receipt via email to dcarter@phillipcapital.com.

- (2) Copies - Confidential Audited Financial Statements
- (2) Copies - Public version Audited Financial Statement

Regards,

A handwritten signature in black ink, appearing to read 'Derek Carter', written over a light blue horizontal line.

Derek Carter
Chief Financial Officer
Phillip Capital Inc.

Phillip Capital Inc.
FINANCIAL STATEMENT
AND SUPPLEMENTARY SCHEDULES
June 30, 2020
PUBLIC

Filed as PUBLIC information pursuant to Rule 17a-5(d) under
the Securities Exchange Act of 1934 and Regulation 1.10(g)
under the Commodity Exchange Act.

• **Phillip Capital Inc.**

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June 30, 2020

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RYAN & JURASKA LLP
Certified Public Accountants
141 West Jackson Boulevard
Chicago, Illinois 60604
Tel: 312.922.0062
Fax: 312.922.0672

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
of Phillip Capital Inc.

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Phillip Capital Inc. (the "Company") as of June 30, 2020 that you are filing pursuant to Rule 17a-5 under the Securities and Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act ("CEAct"), and the related notes and supplementary schedules (collectively referred to as the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of Phillip Capital Inc. as of June 30, 2020 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of Phillip Capital Inc.'s management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Phillip Capital Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission, the Commodity Futures Trading Commission ("CFTC"), and the PCAOB. We have served as Phillip Capital Inc.'s auditor since 2011.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The Supplementary Schedules (the "supplemental information") have been subjected to audit procedures performed in conjunction with the audit of Phillip Capital Inc.'s financial statement. The supplemental information is the responsibility of Phillip Capital Inc.'s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statement or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5 and pursuant to Regulation 1.10 under the CEAct. In our opinion, the Supplementary Schedules are fairly stated, in all material respects, in relation to the financial statement as a whole.

Ryan & Juraska LLP

Chicago, Illinois
August 24, 2020

Phillip Capital Inc.

Statement of Financial Condition

June 30, 2020

Assets

Cash	\$	7,716,795
Cash segregated under federal and other regulations		45,459,799
Deposits with clearing organizations		544,543,640
Receivables from clearing organizations		12,872,607
Securities purchased, at fair value		42
Stock in clearing organization, at cost (fair value \$1,448,196)		440,515
Customer debits		111,643
Exchange memberships, at cost (fair value \$1,345,700)		3,685,500
Furniture and equipment, at cost (net of accumulated depreciation of \$345,657)		528,957
Receivables from futures commission merchants		12,242,666
Operating lease right of use assets		905,701
Receivables from affiliates		5,334
Other assets		813,163
Total assets	\$	<u>629,326,362</u>

Liabilities and Stockholder's Equity

Liabilities:

Payable to customers	\$	542,503,738
Payable to noncustomers		5,390,208
Accounts payable and accrued expenses		6,837,435
Payable to brokers and dealers		71,099
Payable to clearing organizations		4,440,047
Loans payable		5,130,000
Operating lease liabilities		1,085,430
Subordinated borrowings		3,005,625
Total liabilities		<u>568,463,582</u>

Stockholder's Equity

Common stock, \$.01 par value; 1,000 shares authorized, 1,000 shares issued and outstanding		10
Paid-in Capital		66,999,990
Retained deficit		<u>(6,137,220)</u>
Total stockholder's equity		<u>60,862,780</u>
	\$	<u>629,326,362</u>

The accompanying notes are an integral part of the financial statement.

1. Organization and Business

Phillip Capital Inc. ("the Company") was incorporated in the State of Delaware in April 2010. The Company is a registered futures commission merchant ("FCM") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association. The Company is a clearing member of the Chicago Mercantile Exchange. ("CME"), the Chicago Board of Trade, the New York Mercantile Exchange, the Commodity Exchange Inc., the Options Clearing Corporation, the CBOE Futures Exchange, the Dubai Mercantile Exchange, the NASDAQ Futures Exchange, ICE Europe, and the Intercontinental Exchange. The Company is engaged in the business of executing and clearing orders for the purchase and sale of commodity futures contracts, options on commodity futures contracts, and cash commodities.

The Company is approved as a registered broker-dealer firm with the Financial Industry Regulatory Authority ("FINRA") and the Securities and Exchange Commission (the "SEC"). The Company is engaged in the business of executing and clearing orders for the purchase and sale of equity securities, and equity options.

The Company is a wholly owned subsidiary of Phillip Capital (USA) Pte Ltd. (the "Parent"), a private limited company based in Singapore.

2. Summary of Significant Accounting Policies

Revenue Recognition

Futures and futures options transactions and the related commission revenue and expenses are recorded on trade date. Customer securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis. The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership of the securities have been transferred to/from the customer.

The Company recognized revenue in accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 606, Revenue from Contracts with Customers, effective July 1, 2018. There were no material changes in revenue recognition policies and no material impact on the Company's financial statement as a result of the new standard.

2. Summary of Significant Accounting Policies, continued

Leases

Accounting Standard Update ("ASU") 2016-02 *Leases* (Topic 842) requires lessees to recognize leases in the statement of financial condition with lease liabilities and corresponding lease right of use ("ROU") assets based on the present value of lease payments. The Company adopted the guidance on July 1, 2019 using the modified retrospective method and practical expedients for transition. The practical expedients allowed the Company to largely account for its lease consistent with prior guidance except for the incremental statement of financial condition recognition for lessees. The implementation of this guidance did not have a material impact on the measurement, recognition or disclosure of leases in the statement of financial condition.

Depreciation

Depreciation of furniture and equipment is computed using straight line methods for financial reporting purposes.

Income Taxes

Deferred income taxes are recorded to reflect the future tax consequences of difference between the carrying value of assets and liabilities for income tax and financial reporting purposes, and for the benefits of tax credit and loss carryforwards. The amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be fully realized.

The Company has adopted FASB ASC topic 740, which provides guidance regarding how uncertain income tax positions should be recognized, measured, presented, and disclosed in the financial statement. FASB ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company continues to evaluate uncertain tax positions, if any, and income tax contingencies under FASB ASC topic 450 *Accounting for Contingencies*. FASB ASC 450 requires the Company to accrue for losses it believes are probable and can be reasonably estimated. Management believes the impact of FASB ASC 740 on its financial position had no material impact on its financial statement.

Phillip Capital Inc.

Notes to Financial Statement

June 30, 2020

2. Summary of Significant Accounting Policies, continued

On December 22, 2017, the President signed into law tax reform legislation effective for tax years ending after December 31, 2017 ("the Act"). The Act replaced the prior corporate tax rate structure with a flat 21% rate, effective in 2018. There were many other future impacts of the tax reform such as the repeal of the corporate alternative minimum tax rate, tax loss carryback and carryforward limitations, etc. In this financial statement there was no revaluation of the deferred tax asset and related allowance based on the reduced federal corporate tax rate.

Exchange Memberships

Exchange memberships are held for operating purposes and are carried at cost.

Securities and Derivatives Valuation

Securities and Derivatives are recorded at fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosure* (see note 12).

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated throughout the year and at year-end rates of exchange.

Marketable Securities

Marketable securities, consisting primarily of U.S. government securities, are held as collateral for receivables from customers and as margin. The Company may deposit the securities as margin with exchange clearing organizations. Customer-owned securities and options are not reflected in the statement of financial condition.

Use of Estimates

The preparation of this financial statement in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and the accompanying notes. Management determines that the estimates utilized in preparing its financial statement are reasonable and prudent. Actual results could differ from these estimates.

Phillip Capital Inc.

Notes to Financial Statement

June 30, 2020

3. Segregated and Secured Assets

At June 30, 2020, assets segregated or held in separate accounts under Federal regulations included in the statement of financial condition are as follows:

Segregated for customers trading on U.S. futures exchanges:

Cash	\$ 38,993,878
Deposits with clearing organizations	499,423,982
Receivables from futures commission merchants	367,783
Receivables from clearing organizations, net	<u>6,103,879</u>
	<u>\$ 544,889,522</u>

Held in separate accounts for foreign futures and options customers:

Cash	\$ 3,804,395
Receivables from futures commission merchants	989,014
Receivables from members of foreign boards of trade	<u>10,885,870</u>
	<u>\$ 15,679,279</u>

Customers' funds, regulated under the Commodity Exchange Act, as amended (the "CEAct"), are required to be segregated from the funds of the Company and its employees. Customers' segregated funds and equities in customers' regulated trading accounts, as shown in the statement of financial condition, do not reflect the market value of options positions owned by customers, U.S. government securities owned by customers, and warehouse receipts owned by customers.

At June 30, 2020, the market value of customers' net options positions owned and U.S. government securities owned approximated \$(10,790,888) and \$57,000,000, respectively.

Cash of \$2,661,527 has been segregated in special reserve accounts for the exclusive benefit of customers pursuant to federal regulations under Rule 15c3-3 of the Securities Exchange Act of 1934 or agreements for proprietary accounts of broker-dealers.

4. Deposits with Clearing Organizations

At June 30, 2020, deposits with clearing organizations consisted of cash margins totaling \$509,515,218, money market mutual funds totaling \$542,222, and U.S. government securities totaling \$34,486,200.

5. Concentration of Credit Risk

Risk arises from the potential inability of counterparties to perform under the terms of the contracts (credit risk) and from changes in the values of the underlying financial instruments (market risk). The Company is subject to credit risk to the extent any broker with whom it conducts business is unable to fulfill contractual obligations on its behalf. The Company attempts to minimize its exposure to credit risk by monitoring brokers with whom it conducts business. In management's opinion, market risk is substantially diminished when all financial instruments are aggregated.

At June 30, 2020, a significant credit concentration consisted of cash deposited at three banks. The balances exceed federally insured limits by approximately 86% of the net equity of the Company. The Company has not experienced any losses in such accounts. Management does not consider any credit risk associated with this net receivable to be significant.

6. Loans Payable

The Company has a \$20,000,000 line of credit with a bank with an interest rate determined at the bank's discretion on the bank's daily quoted rate. Borrowings are used to meet short term liquidity needs. At June 30, 2020, there was no outstanding balance.

The Company has a \$10,000,000 line of credit with an affiliated lending institution with an interest rate determined as the federal discount rate plus .25%. Borrowings are used to meet short term liquidity needs. At June 30, 2020, the outstanding balance owed was \$5,130,000 and is included in loans payable on the statement of financial condition.

7. Related Party

The Company pays certain expenses on behalf of its affiliates and has certain expenses paid by affiliates on its behalf. Such payments are reimbursed by the Company or by the affiliate, as applicable. At June 30, 2020, the amount due from affiliates is \$5,334, and is included on the statement of financial condition.

From time to time, the Company draws on a line of credit with an affiliated entity. At June 30, 2020, the outstanding balance owed was \$5,130,000 and is included in loans payable on the statement of financial condition.

Phillip Capital Inc.

Notes to Financial Statement

June 30, 2020

8. Subordinated borrowings

At June 30, 2020, the subordinated borrowing consists of the following:

Subordinated note, 1.5 percent, due May 15, 2023	\$ 3,000,000
--	--------------

The borrowing is from the Parent. Pursuant to the terms of the agreement, the note is renewed for one year upon maturity, unless notified otherwise in advance by the note holder. Notification by the note holder not to renew must be made thirteen months in advance of a maturity date.

The subordinated borrowing is covered by an agreement approved by the FINRA and the CME and is thus available in computing net capital. Under certain circumstances and with prior permission from FINRA and the CME, the Company may, at its option, make a payment of all or any portion of the principal amount prior to the maturity date at any time subsequent to one year from the effective date of the agreement.

9. Commitments

The Company has an obligation as a lessee for office space facilities with initial noncancelable terms in excess of one year. The Company classified this lease as an operating lease. As of June 30, 2020, the remaining lease term is approximately 4 years and the discount rate used to measure the lease liability is approximately 3.5%.

The table below reconciles the undiscounted cash flows of the Company's lease as of June 30, 2020 to the present value of its operating lease payments:

Year Ending June 30,	Amount
2021	321,355
2022	327,777
2023	334,337
2024	168,820
Total undiscounted operating lease payments	1,152,289
Less: imputed interest	(66,859)
Present value of operating lease liability	\$ 1,085,430

An operating lease right-of-use asset is initially measured at the fair value of the lease liability minus any lease incentives and initial direct costs incurred plus any prepaid rent. At June 30, 2020, the amount of the right-of-use asset is \$ 905,701 on the statement of financial condition.

Phillip Capital Inc.

Notes to Financial Statement

June 30, 2020

10. Employee Benefit Plan

The Company has established a salary reduction 401(k) plan for qualified employees. The Company may elect to match a percentage of employees' contributions up to a defined maximum, and make further discretionary contributions to the plan, subject to certain limitations as set forth in the plan agreement.

11. Income Taxes

At June 30, 2020, the Company has a net operating loss carryforward available to offset future taxable income of approximately \$5,200,000 which expires in tax years 2030 through 2037.

The Company has a deferred tax asset of approximately \$1,100,000 arising from its net operating loss of \$5,200,000 and a temporary deferred tax liability in the amount of \$40,000 on unrealized gains of approximately \$190,000 for the year ended June 30, 2020. The net deferred tax asset is fully reserved as realization is not assured. The net deferred tax asset and the valuation allowance decreased by approximately \$100,000 during the year ended June 30, 2020.

The Company is no longer subject to federal or state tax examinations by taxing authorities for years before 2016.

12. Fair Value Measurements and Disclosure

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability.

Phillip Capital Inc.

Notes to Financial Statement

June 30, 2020

12. Fair Value Measurements and Disclosure, continued

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, the type of investment, the liquidity of the markets, and other characteristics particular to the investment. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for investments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy wherein the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement.

At June 30, 2020, the Company's Level 1 investments consisted of money market mutual funds, U.S. government securities, and equity securities with fair values of \$542,222, \$34,486,200, and \$42 respectively. The Company held no Level 2 or Level 3 assets or liabilities at June 30, 2020.

13. Financial Instruments

ASC 815, Derivatives and Hedging, requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements. The disclosure requirements of ASC 815 distinguish between derivatives, which are accounted for as "hedges" and those that do not qualify for such accounting.

Futures contracts provide for the delayed delivery/receipt of securities or money market instruments with the seller/buyer agreeing to make/take delivery at a specified date, at a specified price. Fair value of futures contracts is included in receivable from broker dealers. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk.

Options contracts grant the purchaser, for the payment of a premium, the right to either purchase from or sell to the writer a specified financial instrument under agreed terms. As a writer of options contracts, the Company receives a premium in exchange for bearing the risk of unfavorable changes in the price of the financial instruments underlying the options.

14. Guarantees

FASB ASC 460, *Guarantees*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460, *Guarantees*, defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

The Company clears and executes futures contracts, options on futures contracts, and equity products for the accounts of its customers. As such, the Company deposits performance bond collateral with the applicable clearing organizations to fulfill the obligations of its customers' performance under these contracts. To reduce its operational risk, the Company requires its customers to meet, at a minimum, the margin requirements established by each exchange on which the contract is traded. This margin is a good faith deposit from the customer. To minimize its market and credit risks, The Company adjusts the amount of margin required commensurate with the level of risk associated with the customers' underlying positions. If necessary, the Company may liquidate certain positions in order to satisfy minimum margin requirements. Management believes that the margin deposits held at June 30, 2020, are adequate to mitigate the risk of material loss.

Derivative contracts

Certain derivatives contracts that the Company has entered into meet the accounting definition of a guarantee under ASC 460. Derivatives that meet the ASC 460 definition of guarantees include futures contracts and written options. The maximum potential payout for these derivatives contracts cannot be estimated as increases in interest rates, foreign exchange rates, securities prices, commodities prices and indices in the future could possibly be unlimited.

The Company records all derivative contracts at fair value. For this reason, the Company does not monitor its risk exposure to derivatives contracts based on derivative notional amounts; rather the Company manages its risk exposure on a fair value basis. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company believes that market risk is substantially diminished when all financial instruments are aggregated.

14. Guarantees, continued

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including third-party brokers, improperly executed transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statement for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statement for these indemnifications.

Exchange Member Guarantees

The Company is a member of various exchanges that trade and clear futures contracts. Associated with its memberships, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligation to the exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statement for these agreements and believes that any potential requirement to make payments under these agreements is remote.

15. Other matters

In the normal course of business, the Company may become subject to various claims, litigation, regulatory, and arbitration matters. Because such matters, if any, may be at different stages, management is unable to predict their outcome.

16. Subsequent events

Management has evaluated events and transactions through August 24, 2020, the date the financial statement was available to be issued, noting no material events requiring disclosure in the Company's financial statement or in the related notes to the financial statement.

In January 2020, the World Health Organization declared COVID-19 a Public Emergency of International concern. Although the ultimate impact of COVID-19 is uncertain, management continues to monitor the outbreak. As of the date the financial statement was available to be issued, however, the potential impact of such on the Company's business and operations cannot be reasonably estimated.

SUPPLEMENTARY SCHEDULES

Phillip Capital Inc.
Statement of the Computation of Net Capital and Minimum Capital Requirements
June 30, 2020

Total stockholder's equity	\$ 60,862,780
Adjustments to ownership equity	0
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>3,005,625</u>
Total capital	<u>63,868,405</u>
Deductions and/or charges	
Nonallowable assets:	
Customer debits	111,643
Exchange memberships, at cost	3,685,500
Receivables from affiliates	5,334
Furniture and equipment, at cost	528,957
Stock in clearing organization, at cost	440,515
Other	638,074
Commodity futures contracts and spot commodities - proprietary capital charges	2,775,969
Total deductions	<u>8,185,992</u>
Net capital before haircuts on securities positions	<u>55,682,413</u>
Haircuts on securities:	
U.S. and Canadian government obligations	432,407
Stocks and warrants	329
Other securities	10,844
Other	3,558
	<u>447,138</u>
Net capital	<u>55,235,275</u>
Computation of alternate net capital requirement:	
Greater of 2% of aggregate debits or minimum requirements under the Commodity Exchange Act, as defined	29,314,010
Minimum dollar net capital requirement	29,314,010
Net capital requirement	<u>29,314,010</u>
Excess net capital	<u>25,921,265</u>
Net capital in excess of 120% of minimum net capital requirement	<u>\$ 20,058,463</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

**Computation for Determination of Reserve Requirements for Broker-Dealers Under Rule 15c3-3
June 30, 2020**

Credit balances:

Free credit balances and other credit balances in customers' securities accounts	\$ 1,372,091
Customers' securities failed to receive	373,309
Credit balances in firm accounts attributable to sales to customers	0
Total credits	<u>1,745,400</u>

Debit balances:

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E,	
Exhibit A, Rule 15c3-3	0
Aggregate debit items	0
Less 3%	0
Total 15c3-3 debits	<u>0</u>

Excess of total credits over total 15c3-3 debits \$ 1,745,400

Amount held on deposit in "Reserve Bank Account(s)," including value of qualified securities at end of reporting period on June 30, 2020 \$ 2,450,021

Amount of deposit (or withdrawal) in "Reserve Bank Account(s)", including value of qualified securities (200,000)

New amount in "Reserve Bank Account(s)" \$ 2,250,021

There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

• **Phillip Capital Inc.**

Schedule 3

**Computation for Determination of PAB Reserve Requirements for Broker-Dealers
Under Rule 15c3-3**

June 30, 2020

Credit balances:

Free credit balances and other credit balances in proprietary accounts of introducing brokers (PAB)	\$ 210,123
Total PAB credits	<u>210,123</u>

Debit balances:

Debit balances in PAB excluding unsecured accounts and accounts doubtful of collection	<u>0</u>
Total PAB debits	<u>0</u>
Excess of total PAB credits over total PAB debits	<u>\$ 210,123</u>

Amount held on deposit in "PAB Reserve Bank Account(s)," including value of qualified securities at end of reporting period on June 30, 2020	\$ 211,506
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Amount of deposit (or withdrawal) in "PAB Reserve Bank Account(s)", including value of qualified securities	<u>0</u>
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New amount in "PAB Reserve Bank Account(s)"	<u>\$ 211,506</u>
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There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

Reconciliation of Statement of Financial Condition to Segregation Statement (U.S. Exchanges)

June 30, 2020

Customers' Segregated Funds per Statement of Financial Condition (Note 3)	\$ <u>544,889,522</u>
Add:	
Value of customers' open long futures options contracts	43,236,103
Value of customers' owned U.S. government securities	57,000,000
Deduct:	
Value of customers' open short futures options contracts	<u>(52,463,941)</u>
Total Amount in Segregation	\$ <u><u>592,661,684</u></u>

Segregation Requirement and Funds in Segregation

June 30, 2020

Segregation requirement:

Net ledger balance:	
Cash	\$ 530,767,242
Securities	57,000,000
Net unrealized loss in open futures contracts traded on a contract market	(2,568,663)
Exchange traded options:	
Market value of open options contracts purchased on a contract market	43,236,103
Market value of open options contracts sold on a contract market	(52,463,941)
Net equity	575,970,741
Accounts liquidating to a deficit and accounts with debit balances - gross amount	79,808
Amount required to be segregated	<u>576,050,549</u>

Funds on deposit in segregation:

Deposited in segregated funds bank accounts:	
Cash	38,993,878
Securities	0
Margins on deposit with clearing organizations of contract markets:	
Cash	471,185,652
Securities representing investments of customers' funds, at market	28,238,330
Securities held for particular customers in lieu of cash margins, at market	57,000,000
Net settlement from clearing organization of contract markets	6,103,879
Exchange traded options:	
Value of open long option contracts	43,236,103
Value of open short option contracts	(52,463,941)
Net equities with other futures commission merchants:	
Net liquidating equity	367,783
Securities held for particular customers in lieu of cash margins, at market	0
Customers' segregated funds on hand	0
Total amount in segregation	<u>592,661,684</u>
Excess funds in segregation	\$ <u>16,611,135</u>
Management target amount for excess funds in segregation	<u>11,500,000</u>
Excess funds in segregation over management target amount for excess	\$ <u>5,111,135</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

Phillip Capital Inc.

Schedule 6

**Segregation Requirement and Funds in Segregation - Customer's Dealer Options and
Cleared Swaps Customer Accounts**

June 30, 2020

The Company does not carry customers' dealer option accounts as defined by Commodity Exchange Act Regulation 32.6. Therefore, the Company is exempt from the provisions of Regulation 32.6.

The Company does not carry customers' cleared swaps accounts as defined by Commodity Exchange Act Regulation 4D(F). Therefore, the Company is exempt from the provisions of Regulation 4D(F).

Secured Requirement and Funds Held in Separate Accounts

June 30, 2020

Amount required to be set aside in separate Section 30.7 accounts		\$	<u>11,215,043</u>
Funds on deposit in separate Section 30.7 accounts:			
Cash in banks			
Banks located in the United States	\$	1,278,593	
Banks located in the Foreign Countries		<u>2,525,802</u>	3,804,395
Equities with registered futures commission merchants			
Cash	\$	973,060	
Unrealized gain (loss) on open futures contracts		15,954	
Value of short option contracts		<u>0</u>	989,014
Amounts held by members of foreign boards of trade			
Cash	\$	11,361,540	
Unrealized gain (loss) on open futures contracts		(475,670)	
Value of open long option contracts		1,076,450	
Value of open short option contracts		<u>(2,639,500)</u>	<u>9,322,820</u>
Total amount in separate Section 30.7 accounts			<u>14,116,229</u>
Excess funds in separate Section 30.7 accounts		\$	<u>2,901,186</u>
Management target amount for excess funds in separate section 30.7 accounts		\$	<u>1,500,000</u>
Excess funds in separate 30.7 accounts over management target amount for excess		\$	<u>1,401,186</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

Information Relating to Possession or Control Requirements Under Rule 15c3-3

June 30, 2020

- 1 Customers' fully paid and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date but for which the required action was not taken by respondent within the time frames specified under

Rule 15c3-3).

\$ 0

A. Number of items

\$ 0

- 2 Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations: as permitted under Rule 15c3-3.

\$ 0

A. Number of items

\$ 0

There are no material differences between the above computation and the Company's corresponding unaudited Form FOCUS filing as of June 30, 2020.

**RYAN & JURASKA LLP**

Certified Public Accountants

141 West Jackson Boulevard
Chicago, Illinois 60604

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
of Phillip Capital Inc.

We have examined Phillip Capital Inc.'s statements, included in the accompanying Annual Report of Compliance and Internal Control over Compliance, that (1) Phillip Capital Inc.'s internal control over compliance was effective during the fiscal year July 1, 2019 through June 30, 2020; (2) Phillip Capital Inc.'s internal control over compliance was effective as of the most recent fiscal year ended June 30, 2020; (3) Phillip Capital Inc. was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of the end of the most recent fiscal year ended June 30, 2020; and (4) the information Phillip Capital Inc. used to state that the company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the books and records of Phillip Capital Inc. Phillip Capital Inc.'s management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing Phillip Capital Inc. with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3, 17 C.F.R. § 240.17a-13, or Rule 2340, Customer Account Statements, of FINRA that requires account statements to be sent to the customers of Phillip Capital Inc. will be prevented or detected on a timely basis. Our responsibility is to express an opinion on Phillip Capital Inc.'s statements based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Phillip Capital Inc.'s internal control over compliance was effective as of and during the most recent fiscal year ended June 30, 2020; Phillip Capital Inc. complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of June 30, 2020; and the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of June 30, 2020 was derived from Phillip Capital Inc.'s books and records. Our examination includes testing and evaluating the design and operating effectiveness of internal control over compliance, testing and evaluating Phillip Capital Inc.'s compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from Phillip Capital Inc.'s books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, Phillip Capital Inc.'s statements referred to above are fairly stated, in all material respects.

Chicago, Illinois
August 24, 2020



Phillip Capital Inc.

Annual Report of Compliance and Internal Control over Compliance

Pursuant to SEC Rule 17a-5(d)(3)

August 24, 2020

Phillip Capital Inc.'s Compliance Report

Phillip Capital Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. 240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. 240.17a-5(d)(1) and (3), the Company states as follows:

- (1) The Company's Internal Control over Compliance was effective during the fiscal year July 1, 2019, through June 30, 2020;
- (2) The Company's Internal Control over Compliance was effective as of the end of the most recent fiscal year ended June 30, 2020;
- (3) The Company was in compliance with 17 C.F.R. 240.15c3-1 and 17 C.F.R. 240.15c3-3(e) as of the end of the most recent fiscal year ended June 30, 2020; and
- (4) The information the Company used to state that the company was in compliance with 17 C.F.R. 240.15c3-1 and 17 C.F.R. 240.15c3-3(e) was derived from the books and records of the Company.

We, the undersigned, affirm that, to our best knowledge and belief, this Compliance Report is true and correct.

A handwritten signature in black ink, appearing to read 'Cameron Frazier', written over a horizontal line.

Cameron Frazier, Co-CEO

A handwritten signature in black ink, appearing to read 'Lynette Lim', written over a horizontal line.

Lynette Lim, Co-CEO